

## BOARD OF COUNTY COMMISSIONERS FREDERICK COUNTY, MARYLAND

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### President Blaine R. Young Board of County Commissioners FY 2012 Operating Budget Remarks April 5, 2011

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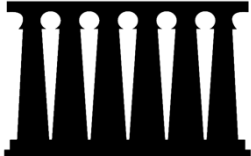
Barry L. Stanton  
*County Manager*

On December 1, 2010, this Board of County Commissioners started with an \$11.8 million deficit and with a \$31 million base structural deficit. With the consent of the Board of County Commissioners, a Budget Review Committee was quickly established that consisted of County Manager Barry Stanton, Assistant County Manager Dave Dunn (once he was on board), Human Resources Director Mitch Hose, Finance Director John Kroll and Budget Officer Mike Gastley. They were instructed to identify and present to the Board of County Commissioners, working with the county division directors, cost saving measures to eliminate the shortfall and reduce the structural deficit without having to raise property taxes or the Fire Tax (Urban and Suburban), and not to create any new fees. They were told to look at middle management and non-county required grants, and to work with and communicate to the Board of Education a request for half of the county's deficit.

We are thankful and appreciative of this elected Board of Education's commitment to work with us to accomplish this without a request for a Maintenance of Effort waiver, as six other counties have done.

This was done without fighting and arguing or the "Church Street shuffle," as it was called in years past. It was done by working together because as it is our budget, it is our deficit. This \$448 million proposed budget is \$10 million more than adopted last year. This proposed budget does not consist of any pay raises or cost-of-living increases for county employees for a third consecutive year. This proposed budget eliminated 160 positions and downgraded another 15, taking us back to the equivalent work force of 2006. Of the 175 positions, 106 real people were laid-off (the other positions were already vacant).

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Budgeted property tax revenue was off for the first time in recent memory, down by 2.36 percent, or close to \$6 million. Budgeted Income tax revenue came in higher than expected by 12 percent, or close to \$16 million (this number comes straight from the State of Maryland).

Now, the first question someone may ask is, *“How do you have a proposed budget spending \$10 million more when you cut, reduced or eliminated 175 positions?”*

Well, this proposed budget does have a reduction of 4.55 percent in salaries or \$3.1 million, not including another \$2.5 million in salary reductions from grant-related programs. However, benefits are up 19 percent, about \$7 million, due to this Board’s commitment to stay with the five year ramp-up of OPEB.

OPEB is an acronym for Other Post Employment Benefits, or the retiree’s health contribution plan. The county began to fund OPEB in FY 2007 by pre-funding about \$2.7 million. The original concept was to follow a five-year ramp up (20 percent per year) over the FY 2008 through FY 2012 period. There were fluctuations in the funding levels from year to year due to budget considerations, with FY 2011 being under funded by about \$5 million.

For FY 2012, the Commissioners have committed to fully fund the final year of the five-year phase-in model. While the county could have saved about \$4.6 million in FY 2012 by converting to an eight-year phase-in model, this would have prolonged the ramping up period and ultimately cost the county more money through the loss of investment revenue compounded at a lower rate of return. With the five-year ramp up now funded, the county can look forward to relatively stable OPEB contributions that should fluctuate only by changes in the health care cost and the addition or reduction of employees.

There was also an increase in debt service by nine percent, around \$3 million. Additionally, due to a shift of responsibilities about two years ago from the General Fund to the Urban and Suburban Fire tax districts, there was an \$8 million plus impact. This proposed budget returns \$4.5 million from the General Fund as a cash contribution to the Urban and Suburban Fire Tax districts, balancing them for one year with no tax increase. As you can see, we have serious problems and challenges in the Fire Tax districts for 2013, 2014, and beyond. They have been living off fund balances for the past five years. This will have to be addressed within the next eight to 10 months.

This proposed budget does reduce Grant-in-Aid by 25 percent or \$125,710. It still contains \$377,131 in Grant-in-Aid contributions from the taxpayers. This proposed budget does reduce non-county agency funding by 50 percent or \$179,359. It still contains \$179,360 in non-county contributions from the taxpayers.

While we have relinquished the Head Start grant back to the federal government for a savings of over \$2 million, Frederick County is still contributing the facilities rent-free. (We went from 10 percent to seven percent of grant-funded employees with this management change.) Even after this reduction, the county still has about 160 grant-funded positions that impact the General Fund.

While we did eliminate seven county-funded positions at the Department of Social Services, a state agency to assist with the less fortunate, we are still contributing around \$800,000 dollars in personnel to that agency, or 31 positions.

We did not touch or raid the recordation tax for Open Space, as was done last year, to the tune of over \$4 million.

**So, as you can see, the \$10 million in additional spending is attributed to OPEB (retiree health care), balancing the Fire Tax, and our increased debt service -- NOT pay raises or additional personnel.**

While we did make some progress on the structural shortage in this proposed budget, we still have a serious structural deficit issue to deal with. In other words, we are still spending more than we are getting in recurring revenues.

Frederick County has been struggling to close a deficit in recent years, which takes into account all sources of revenues (current and one-time, such as fund balance) and expenditures.

What is more troubling is that the county has been facing a growing structural deficit since FY 2002. A structural deficit exists if the expenditures exceed the current operating revenues (mainly from property and income taxes), without inclusion of one-time revenue sources such as prior years' fund balances or transfers from other sources.

One-time revenue sources should be used for one-time expenditures, such as a cash infusion into the Capital Improvements Program (CIP) for a specific project. Though there have been one-time designations of funds for specific CIP projects and Frederick County Public School needs, most of the fund balance has been used to balance the on-going needs. While the use and recognition of a part of the fund balance is acceptable (in Frederick County, about \$5-8 million is expected in most years), the perennial use of the entirety is not. The Board is focused on reducing and ultimately eliminating this structural deficit to solidify the future fiscal health of the county.

This proposed budget does point us in the right direction and starts to restore fiscal sanity in Frederick County.

This proposed budget does take into account a \$20 million fund balance -- not surplus -- from the previous year, which is not unusual, but fund balance should be use for one-time expenditures and not recurring expenditures, which we are working towards correcting.

This proposed budget may need to be tweaked as additional impacts come from the State of Maryland when the legislature closes on April 11. We are prepared to deal with any impacts if necessary.

With this proposed budget Frederick County still maintains its strong bond rating:

**Fitch AAA (From AA+ due to recalibration)**

**Moody's Aa1 (From Aa2 due to recalibration)**

**Standard & Poor's AA+**

This is the public hearing for the proposed FY 2012 budget and final adoption must be done by June 2nd.

It is now time for public comment.

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*NOTE: A replay of the operating budget public hearing will be may be viewed on FCG TV, cable channel 19. Visit [www.FrederickCountyMD.gov/FCGTV](http://www.FrederickCountyMD.gov/FCGTV) for the broadcasting schedule. Or, watch the hearing on the county's webcasting page at [www.FrederickCountyMD.gov/video](http://www.FrederickCountyMD.gov/video) under the Board of County Commissioners' listing. [\[Link to webcasting page...\]](#)*